The Knight Transportation story: Trucking Company changes drivers

Kevin Knight is chairman of the board and chief executive officer of Knight Transportation. Founded by Knight and his brother and two cousins in 1990, Knight Transportation is a multiple truckload services transportation provider with a nationwide network of service centers and approximately 6,000 associates. A publicly-traded company, Knight Transportation was named to *Forbes Magazine*’s list of Top 200 Best Small Companies 15 years in a row (1994–2009).

On November 5, 2014, Knight Transportation announced that David Jackson would succeed founder Kevin Knight as CEO on January 1, 2015. A week later, Knight shared his company’s story at a luncheon meeting of the Economic Club of Phoenix, an affiliate of the W. P. Carey School of Business. Jeffrey Cunningham, professor of practice at the W. P. Carey School of Business and president of the club, moderated the conversation.

Q. You were a young executive at Swift, a major transportation company, at age 34. You left to start your own business. As Dr. Phil says, what were you thinking?

A. At the time, the four of us (Randy, Gary, Kevin, and Keith Knight) had 60 years of experience in trucking and it was 10 years post de-regulation. We thought this would be an opportunity to do something really special.

Q. After you started the company you were quoted saying “Our biggest competitors had been in business for more than 15 years and we were behind. It probably made us what we are.” What did you mean by that and how tough was it to catch up?

A. Because it had been 10 years since deregulation, the big names — Swift, Schneider, J.B. Hunt, and Werner — were way ahead of us. But the good news is they had made mistakes and we had experienced some of those, first hand, in our days at Swift. We
looked at it much the way Southwest Airlines did when they started their airline business: let's do it a little bit different. Let's focus on being unique. Let's develop a model that will allow us to compete on cost no matter what economic environment we run into. That ended up being a real advantage for us. Most companies had become more centralized in their decision-making, but at Knight we’ve tried to force decision-making to our service centers as much as possible.

We were very fortunate to work for Jerry [Moyes] at Swift; he is an amazing entrepreneur. There is a trucking company in Iowa that was actually the most profitable at the time, and I had paid enormous attention to their financials because they were public. But Jerry was more “Let's go for it and get it done.” So we spent a lot of time observing a conservative, high-profit company in Iowa, but with Jerry, as we used to say, we were the broom sweepers. He’d get a deal done and then we would go to work.

Q. You weren’t exactly asset-rich when you started. How long did it take you to earn customer confidence and what were some of the techniques?

A. Keith was in California, which is our biggest market and Randy, Gary, and I were in Arizona, which is our second biggest market. We had worked a lot with our customers over time. The real challenge wasn’t so much getting loads — we felt pretty confident about that. The biggest challenge was getting the capital. That’s where I spent my time: making sure we could find someone who would commit $10 to $15 million. And we did find someone. We wanted to get that large of a commitment because we felt if we could get access to that much capital we could be a fairly significant player.

Q. When you were out there building a business, was it challenging to maintain your role as a family member and be there for them?

A. I would say our families sacrificed a lot. We were gone a lot and there was the added element of pressure, which intensified when we decided to go public. We were a very high growth company: we were always looking at bringing on the next hundred trucks. It took a lot of energy and we had to divert a lot of our attention away from our families and into the business. Good times and bad.

Q. If you look back, particularly before the IPO, what was your best day? What was the most fun exciting moment?

A. It would be hard to beat the day we hauled our first three loads. But for me, there are two other days that I think about. When we bought our first truck we didn’t have a maintenance group — it was my dad and myself. When our first truck pulled in somebody had to decal it, so my dad and I applied the decals and then I drove it home. I think Casey and Jake and I might have slept in it that night. We had some fun! The other significant event would be the day we rang the bell at the New York Stock Exchange. We actually parked a truck right in front of the stock exchange.

Q. What was your worst day?
A. I remember our first accident. We loved the driver, and he went on to retire from the company. You take a lot of pride when your name's on the side of a truck. Fortunately no one was seriously injured. That was a tough day.

Stepping up

Q. At Swift you became an experienced executive. At Knight in the pre-IPO days it was a bit of a consensus management arrangement, then after the IPO you were appointed CEO. When did you become a leader? What made that happen for you?

A. Everybody played such an important role in our company, but I had spent an enormous amount of time in my days at Swift understanding the differences between being profitable and not being profitable in our industry. In one of my roles at Swift, Jerry, and I opened our new facilities. I had a lot of experience building out those operations. My brother and our cousins spent most of their time with our customers. So it was pretty clear from the beginning that I would be the CEO. We've always managed our business by consensus — and still almost do — but there have been times when, as CEO, I've had to say this is what we're going to do. But the great thing about my family is we have always debated and then moved on.

We grew up in a small farming community. Both of our granddads were farmers. Our dad was a very hard worker, and he always had something going on. I would say most of [our entrepreneurial skill] comes from our dad. I think Jerry [Moyes] would say the same thing about his dad, Carl. Our two families go back several generations to a small town called Plain City [Utah]. C.R. England [a temperature controlled trucking company] also came from Plain City. A lot of trucks came out of that little town.

Q. Tell me about the IPO. Was it a difficult process, and how did it affect you?

A. I think it is one thing to tell your family what you’re going to do or expect to do. It’s a totally different thing to tell shareholders, and it creates more intensity.

We were very small. Our revenues were probably $40 million annually when we went public, but we had a number that people could understand: operating ratio. In early post de-regulation, several companies were operating as profitably and efficiently as we were, but by the time we went public, there was only one: our friend in Iowa, Heartland Express. So when you go to potential shareholders — and back then most of them were going long — they’re really interested in your business and being part of your company. It intensifies your desire to do what you said you were going to do.

For us, I don’t think our company would be where it is today if we hadn’t gone public. And I don’t say that because of capital. Remember we worked for Jerry Moyes — he could always find capital — we were very creative there. I think being public has helped drive our results.
Riding out the recession

Q. We went through what you called the mother of recessions. What allowed you to be sustainable and get through it without massive layoffs and changes to your business model?

A. At the end of ’06, the indicators started to look challenging and I got nervous. Our management team was young — not as experienced as they are today — and they wondered what I was worried about. But we took the steps that we needed to take. As a family (and I’m not saying this for praise) we reduced our salaries fairly significantly. And then we went to all of our employees and we asked them to do the same so we wouldn’t have to lay people off. And we let our fleet get a little bit older, because you can’t sell a used truck at a fair price in a downturn. So we extended the age of our fleet and we sold to customers like crazy. We had to reduce some of our rates — more than we would have liked. We just attacked cost like crazy, because that’s our culture, and we suffered through it like everybody else.

We thought it would be better by, say, 2010, but it’s really just now finally starting to have some energy behind it. So it turned out to be seven years. A downturn is outstanding for a management team, because that’s when you really figure out how to do things. We had always operated well, we had always been able to grow and add more people and trucks — and it seemed like that’s just the way the world worked. Then we hit the recession our young team recognized that “oh my gosh this is going to be difficult.” What a great experience for our folks!

Transitions

Q. Having gone public, you now have a board of directors. As a public company you share significant responsibilities and potential liabilities with the board. Would you mind sharing how you chose them, whether you made any mistakes and how you corrected them?

A. Our first board members included Don Bliss (formerly CEO of US West Communications Southwestern Division) and Keith Turley (CEO of Arizona Public Service), who were experienced leaders in our business community. When we went public, the board wasn’t nearly as intense as it is today, with all of the additional regulations — Sarbanes-Oxley (Act of 2002), etc. Our board’s approach was “keep the Knight brothers on the highway and we’ll pretty much support whatever they do.” I’m grateful for those guys. Another board member (G.D. Madden) helped develop our information system that most large trucking companies use today. Mike Garnreiter was our original audit partner and he has been outstanding. We added Kathy Monroe and she has been just outstanding. Rich Lehmann has been outstanding. Rich Kramer, our latest addition, is on the board at American Airlines as well as Knight. So we’ve got a very good board. But today they’re more serious about the job; they feel the weight of their responsibilities, the world has changed.
Q. What advice would you have for a board dealing with a family-run, if not family-controlled or family-owned company? What advice would you have for dealing with management issue with a company like yours?

A. I think it’s important that the board think a lot about the transition from being a family business to family public business to public business. It takes a lot of work, thought and preparation. You don’t want to wait until the founders are not up to speed like they should be. We started preparing for our succession fairly intensively five or six years ago. Last week we announced that David Jackson will be the CEO as of January 1. We’re grateful for Dave.

The great thing about where we are right now is that we’re all still healthy and able to really support and help the group of leaders at that table. We’ve put a lot of work into it and I wouldn’t underestimate the challenge.

Q. Wall Street companies complain about the impact thinking too-short term has on companies. You don’t seem to regard that as a problem. Tell us why?

A: We’ve always tried to stay focused on the next three to five years. It’s unfortunate that when you’re public you’ve got to be thinking about the next quarter. Every time we end a conference call we pat each other on the back and say “okay we’re 20 days into the next quarter, so let’s get refocused.”

We’ve always tried to be 3 to 5 years down the road in terms of our goals. We really do try to avoid short-term decisions. We think a lot about tradeoffs in our organization. You can do something today that makes you look good next quarter, but usually that tradeoff pops its head up two quarters after that. And then you wish that you hadn’t thought short-term.

Challenges

Q: Short-term is something that’s a natural human response to what Clayton Christenson from that lesser business school (Harvard) calls “the inability of the human mind to get its head around complexity.” Short-term is easier to deal with. That leads me to another favorite issue — federal regulation. Talk to us about the burden and challenge of federal regulation as a public company.

A: It’s challenging. As I mentioned earlier, probably 75 percent of our regulations are necessary and have made our industry better. Prior to initiating a rule from a federal agency there is usually a comment period, which gives the industry a chance to influence the rule. The tough thing is that when they initiate a rule, they don’t allow comment after the rule goes into effect. When the regulation goes into place we learn that it didn’t work the way planned but we don’t get to comment. So we end up with 25 percent that should go away, but we don’t have an efficient mechanism to do that.

Q: You said that when things were tough, your brothers and cousins were good at talking you off the ledge. Give us an example of the ledge.
A: I can get fired up occasionally and it’s always good to talk to your older brother and your older cousins who can help you rethink things before you do or say something that you’ll later regret. I’m the one in our organization who gets a little more intense when something’s not going right. But I can always walk into Keith’s office — he has a spirit about him that communicates that there’s no problem.

Just to give you an idea of how his day works: he’s on the phone with our key customers — any of them — and most of them are wanting us to do more. So they call him with their issues and problems, because we like to hear them, all of it all the way to the top. But Keith has this way that, we will work through it, and that’s always been extremely helpful to me.

Q. What we have here is a great example of American capitalism. You made a family business work, you made a public company work, you made your company work.

A. It is an honor to be here with you today.